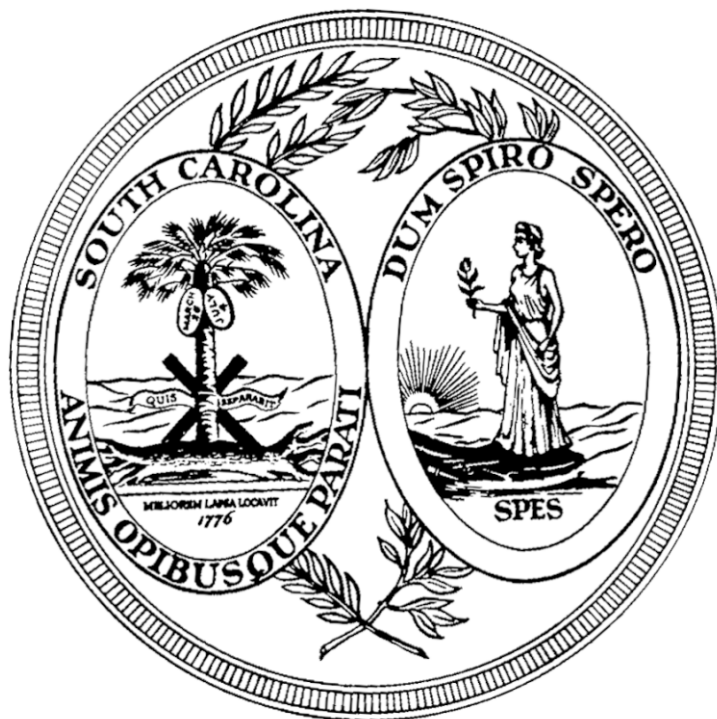


STATE OF SOUTH CAROLINA

DEPARTMENT OF INSURANCE



AGENCY ACCOUNTABILITY REPORT

FISCAL YEAR 2001-2002

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EXECUTIVE SUMMARY

Mission and Values

The South Carolina Department of Insurance (Department) is charged with the protection of the insurance consumer, the public interest, and the insurance marketplace by ensuring the solvency of insurers; by enforcing and implementing the insurance laws of this State; and by regulating the insurance industry in an efficient, courteous, responsive, fair, and equitable manner. The Department accomplishes this mission through professional services, which include, but are not limited to, examinations and audits of insurance underwriters; consumer education, outreach and assistance; premium tax and fee collection on behalf of the State and its subdivisions; prior review and approval of certain insurance premium rates and insurance policy forms; and licensure of insurers and insurance-related individuals and entities. The Department was created by S.C. Code Ann. Section 38-3-10, *et seq.* (1976, as amended, and Supp. 1997). It is managed and operated by a director appointed by, and serving at the will of, the Governor upon the advice and consent of this State's Senate. Our mission is accomplished through the administration of several areas. The Department has established a series of guiding principles and values, among these, the highest priority is given to the following: integrity, accountability, concern regarding the issues that affect our stakeholders, professionalism, customer service, leadership, employee growth and development, open lines of communication with all stakeholders, and ultimately, a quality performance, providing the best service possible to our stakeholders.

Strategic Goals

Guidance and direction for the Department is achieved through the development of a yearly strategic operating plan that incorporates the agency's five-year vision plan. The Department continues to strive toward the five-year goal of being recognized internationally as the model agency providing quality service through efficient, effective and equitable regulation of the insurance industry. Furthermore, the Department will be an organization: with satisfied customers; that has dedicated, courteous, knowledgeable, and professional employees; that maximizes the use of available resources for the benefit of its customer base; and that is committed to promoting a competitive market that offers insurance consumers a choice of various insurance coverages provided by a number of insurers. This past year, the Department made tremendous strides toward the achievement of these goals.

Ongoing priorities for the Department continue to include the effective regulation of the insurance industry through assuring insurance company solvency and compliance with related state laws and regulations, as well as, financial examinations and financial analysis audits to help reduce the number of insolvencies within the industry, thereby reducing the costs of insurance for South Carolinians. Consumer Services and Public Information also remain priorities for the Department as these areas have the highest public profile of all our program areas. The Policy Forms and Rates Program area ensures that forms, rules and rates used by all lines of insurance meet the statutory requirements.

The Year in Review

Fiscal year 2001-02 was one of significant change for the insurance industry. Prior to 2001, certain segments of the insurance industry were experiencing a relatively “soft” market. Insurance products were available at reasonable prices. The Terrorist Attacks of September 11 and allegations of corporate accounting irregularities have impacted the profitability of the insurance industry and have caused some insurance markets to harden.

September 11 will be considered one of the largest single events for the insurance industry in history. The property and casualty insurance industry is expected to bear most of the cost of those losses. The terrorist attacks of September 11, 2001 no doubt impacted the world economy. The financial market, to include the insurance industry, continues to feel the effects of the Attacks. Latest figures show more than \$16 billion in physical losses for US businesses and governments and an additional \$11 billion in rescue and clean-up. . According to the Insurance Information Institute, the total insurance loss from September 11 will ultimately be approximately \$40.2 billion.

Immediately after the Attacks, there was some concern that the insurers would invoke the “war clause” provisions of their policies. This did not happen. To date, most claims related to the Attacks have been paid. While those concerns proved unfounded, many insurers have taken steps to minimize their risk of exposure by drafting terrorism exclusion provisions for their policies. Terrorism exclusions for commercial policies have been permitted in most states, including South Carolina. However, South Carolina, and other members of the National Association of Insurance Commissioners (NAIC), have indicated that they will

consider such clauses on a case-by-case basis for other lines of insurance including personal lines and life, accident and health insurance products.

Since the events of September 11, members of the NAIC have supported efforts to include the passage of federal legislation to make terrorism insurance available and affordable to all American consumers and businesses. Congress introduced H.R. 3210, but it did not pass. During 2001-02, the Department worked with South Carolina’s U.S. Congressional Delegation by providing technical assistance on the impact of this legislation on the insurance industry. To this end, the Director has provided information that has been included in testimony on the House floor. This Department will continue to provide technical assistance to our legislative delegation on this important issue.

Congress did not enact the federal Terrorism Reinsurance Bill; however, Congress responded to the Attacks by enacting the U.S. Patriot Act. This legislation was intended to combat terrorism by requiring financial institutions including insurance companies to establish anti-money laundering programs. The U.S. Department of Treasury is in the process of developing the regulations for establishment of these programs. This law was enacted in response to the terrorist attacks in an effort to strengthen the nation’s ability to combat terrorism and prevent and detect money-laundering activities.

The Director along with insurance commissioners and directors nationwide issued a Bulletin this past year alerting companies to the new responsibilities under the USA Patriot Act. This law was enacted in response to the terrorist attacks in an effort to strengthen the nation’s ability to

combat terrorism and prevent and detect money-laundering activities.

Additionally, allegations of corporate accounting malfeasance led by the bankruptcy of Enron have impacted the stock market by eroding consumer confidence. During the fall of 2001, Enron disclosed a \$600 million overstatement in profits. To date, Enron is recorded as the largest corporate bankruptcies. The Enron bankruptcy has been followed by SEC investigations and indictments of some corporate officers. While these events have not directly affected the insurance industry, it has an indirect impact. The lack of consumer confidence spurred by such events has caused stock prices to plummet. This negative performance of the stock market has affected insurer profitability and turned investment gains into investment losses. As U.S. markets harden, companies are exploring alternative risk transfer mechanisms such as the formation of captives insurance companies.

The Department has recognized the opportunities to increase capacity within its insurance market. During fiscal year 2001-02, it has continued the implementation of the Alternative Risk Transfer Services Division. This new division includes captive insurers, special purpose reinsurance vehicles and protected cells. The Division was established in 2000 upon the passage of S.C. Act No. 331, the South Carolina Captive Insurance Law.

The captive insurance legislation enables South Carolina to make available more options in the insurance marketplace to various industries. Captives are an alternate type of self-insurance vehicle that affords businesses some flexibility with their risk management strategies. Captives make perfect sense considering: (1) one of the

principal reason captives are formed is to address the insurance availability and affordability concerns of the parent; and (2) the industry for which most captives are formed is manufacturing. On August 11, 2000, Governor Jim Hodges signed into law 2000 S.C. Act No. 331, which allows the formation of captive insurers in South Carolina.

The establishment of South Carolina as a domicile for captives is one of the primary objectives of Governor Mr. Jim Hodges and Director of Insurance Mr. Ernst Csiszar. This new captive law only serves to complement the statutory structure already in place to attract industry to South Carolina. South Carolina's leaders recognize the potential advantages of this legislation to our business community and its impact on the state's economic development efforts. As of June 30, 2002, the Department licensed seventeen (17) domestic captive insurers now writing risks throughout the country and five (5) applications are under active review. There are also ten (10) captive management groups presently working in South Carolina, four (4) legal representatives assisting organizations with captives issues and three (3) financial services companies working in the captives market. The Department's website address www.doi.state.sc.us provides extensive information regarding the development and management of captives organizations and the captives market within the State of South Carolina.

Additionally, the Department has attempted to respond to the market availability issues in South Carolina by attracting new carriers to the market. Where possible, the Department has reviewed and improved its regulatory processes and increased its efforts to recruit insurers writing health and other insurance products to the South Carolina

insurance market place. Thus, South Carolina's response to the hardening insurance market is to attract industry thereby increasing competition. It has been successfully demonstrated that increased competition within a market directly benefits consumers by enhancing the choice of insurance products available at affordable prices to the South Carolina consumer.

Significant Achievements During Fiscal Year 2001-02

During 2001, the Department successfully completed its Third Round Accreditation. South Carolina was among the first states to achieve this distinction. Departments are accredited for 5 years. The standards set by the NAIC Accreditation Program require that insurance departments meet certain minimum regulatory standards. The Department successfully demonstrated that it may contract for, the necessary resources, and has organizational and personnel practices necessary to effectively regulate its insurance industry. The scores received during the Third Round Accreditation Review rank the South Carolina's insurance regulatory processes among the best in the country.

Accordingly, this Department provides training and other forms of technical assistance to international insurance departments through the Commercial Law Development Program of the United States Department of Commerce and the NAIC. Members of the Department have participated technical assistance programs sponsored by the United States Agency for International Development (USAID). USAID is an independent agency that provides economic, development and humanitarian assistance around the world in support of the foreign policy goals of the United States. This past year, the

Department provided training and/or technical insurance regulatory consulting services to the insurance regulatory authorities of Egypt and Malaysia. Representatives from the Financial Analysis, Market Conduct and Financial Examinations sections, as well as members of the Office of General Counsel, worked with these governments to further develop their insurance regulatory practices and procedures.

This past year the South Carolina Department of Insurance hosted the International Securitization Conference in Charleston, South Carolina. The Securitization Committee is one of eleven subcommittees of the International Association of Insurance Supervisors (IAIS). The IAIS is comprised of international insurance regulators and supervisors from over 100 jurisdictions and contributes to global financial stability through the development of coordination and cooperation among its members. The Director serves as the Chair of the Subcommittee of Insurance Securitization. The Subcommittee met in Charleston to develop an issues paper for international regulators. This document serves as an educational primer and highlights the various capital market solutions relating to insurance needs and concerns. Securitization is an important mechanism as it links insurance markets with capital markets, thereby complementing traditional reinsurance. It is particularly important in states with significant catastrophe exposures such as South Carolina.

As a part of the Department's mission to protect the insurance consumer, the public interest and the insurance marketplace- the Department worked with the insurance community to hold the South Carolina Coastal Property Insurance Forum during

November 2001. With the significant increase in coastal property values and the state's coastal population, additional insurance capacity is needed to respond to citizens' property insurance needs. Before an audience of more than 180 individuals, the Forum provided the opportunity to educate insurers on the positive legislative and regulatory changes that have been made in the South Carolina property insurance marketplace. This meeting provided insurers and reinsurers with information that had the potential of encouraging existing insurers to expand their writings as well encouraging new insurers to begin writing coastal property insurance in South Carolina. It has been successfully demonstrated that increased competition is an effective means of improving market conditions.

Nationally, states are experiencing problems in their health insurance markets. In 2000, the Department worked with members of the insurance industry and the small business chamber of commerce to review the status of the small group health insurance market. The report that resulted from this review focused on the Reform Initiatives of 1992, the Reform Efforts of 1994 and HIPAA Reform including but not limited to guaranteed issue, renewability and portability and rating. The report also explored recommendations to improve this segment of the market. One of the recommendations was to secure grant funding to develop the necessary initiatives to expand health insurance coverage and stabilize health insurance rates.

During April 2002, the Department submitted a proposal to the US Health and Human Services Administration for a State Planning Grant through their State Planning Grant Program. The proposal allowed for the expansion of the Department's efforts in 2000. The U.S. Department of Health and

Human Services Administration awarded a \$1,100,000.00 planning grant to the Department in July 2002. The grant will further study the uninsured population so that state policy initiatives can be formulated to reduce the number of uninsured. One of the primary purposes of the grant is to expand access to health insurance coverage and to stabilize the insurance rates within the market so that those who are currently insured do not lose their insurance coverage. Because most persons obtain insurance through their employment, the project will focus on the small group health insurance market in South Carolina.

South Carolina's process for licensing insurance agents and brokers was reformed to comply with the reciprocal licensing provisions of the Gramm-Leach-Bliley Act. The Single Model Producer Licensing law was signed in June 2002 by South Carolina Governor Jim Hodges and will become effective January 31, 2003. Approximately 43 states have adopted the model law in an effort to meet the reciprocity requirements GLBA.

South Carolina's new agent licensing law, 2002 S.C. Act No. 323, homogenizes producer (agents, brokers, etc.) requirements. Key provisions of this comprehensive legislation include: creation of a uniform application process; creation of uniform exemptions from producer licensing; establishment of uniform exemptions for completing pre-licensing education and examinations for licensed producers who apply for a non-resident license; establishment of uniform standards for license denials, non-renewals and revocations; establishment of uniform standards for commission sharing; and creation of an updated fee schedule for producer licenses, agency licenses and insurer appointments.

Opportunities and Barriers

Tremendous change is occurring within the insurance industry. Historically, the regulation of the business of insurance has fallen within the province of the states. However, with the convergence of the capital markets upon the insurance industry, and the globalization of insurance, the number of proposals calling for a federal regulator of insurance is increasing. Senator Schumer introduced legislation in Congress calling for an optional federal charter for life and property and casualty insurers. Likewise, the American Council of Life Insurers and American Insurance Association have introduced legislation calling for an optional federal charter. Against this backdrop, states are attempting to try to preserve state regulation by streamlining processes and exploring ways to enter into cooperative interstate

agreements governing certain aspects of insurance regulation.

The Department continues to work toward a more efficient and streamlined work process. The most significant barriers for the Department continue to be financial reductions in state appropriations and unfunded mandates. The reductions in funding and increases in responsibility have drained, and will continue to, drain already strained resources. The Department is doing more with less and trying to devise creative ways to manage its budget shortfalls while providing the necessary customer service and staying abreast of all of the developments within the industry. In these economic times, it is critical for the Department to continue to further develop cost saving practices thereby increasing efficiency and effectiveness for our stakeholders.

South Carolina Department of Insurance Accountability Report 2001-2002
Section II-Business Overview

**EMPLOYEES AND
OPERATIONS**

The Department of Insurance operates three organizational Divisions: the Executive Division, the Administrative Services Division and the Financial Services/Office of General Counsel Division. During fiscal year 2001-02, the Department had ninety

(90) classified employees, three (3) unclassified employees, five (5) temporary employees, and one (1) temporary grant funded employee.

The organization operates out of the facility located in the Fontaine Business Park, 300 Arbor Lake Drive, Suite 1200, Columbia, South Carolina.

Base Budget Expenditures and Appropriations

	00-01 Actual Expenditures		01-02 Actual Expenditures		02-03 Appropriations Act	
Major Budget Categories	Total Funds	General Funds	Total Funds	General Funds	Total Funds	General Funds
Personal Service	\$3,947,597	\$3,047,382	\$3,971,159	\$3,032,669	\$3,943,972	\$3,039,972
Other Operating	\$2,314,213	\$1,685,266	\$2,448,488	\$858,264	\$1,749,231	\$770,271
Special Items	\$0	\$0	\$0	\$0	\$0	\$0
Permanent Improvements	\$0	\$0	\$0	\$0	\$0	\$0
Case Services	\$0	\$0	\$0	\$0	\$0	\$0
Distributions to Subdivisions	\$234,266	\$0	\$111,147	\$0	\$235,000	\$0
Fringe Benefits	\$998,569	\$791,588	\$1,045,795	\$805,105	\$993,817	\$780,777
Non-recurring	\$0	\$0	\$0	\$0	\$0	\$0
Total	\$7,494,645	\$5,524,236	\$7,576,589	\$4,696,038	\$6,922,020	\$4,591,020

Other Expenditures

Sources of Funds	00-01 Actual Expenditures	01-02 Actual Expenditures
Supplemental Bills	\$153,158	\$1,013,616
Capital Reserve Funds	\$0	\$0
Bonds	\$0	\$0

KEY CUSTOMERS AND KEY SERVICES PROVIDED

The Department's key customers are the citizens of South Carolina, insurance consumers and the insurance marketplace.

The South Carolina Department of Insurance is a Regulatory Agency. Through the Administrative Division, the Office of Consumer Services provides assistance to consumers regarding insurance related issues, complaints and concerns. Also within the Administrative Division, the Office of Education reviews and approves sponsors, instructors and courses for both prelicensing and continuing education for insurers. The Department is responsible for the collection and deposit, into the State's General Fund, of premium taxes due from insurers and brokers. We administer licensing programs for agents, agency brokers, adjusters, appraisers, bail bondsmen, runners and surety bondsmen. The Department is also required to issue Third Party Administrator Licenses, and Premium Service Company and Utilization Review Company Licenses.

Our Financial Services Division provides market conduct exams of insurers, monitors the financial condition and operations of insurers and health maintenance organizations conducting business in S.C. and acts as a securities custodian for S.C. policyholders, enrollees and creditors of insurers, eligible surplus lines insurers and health maintenance organizations. The Financial Services Division is also responsible for the review of all policy forms and rates for compliance with S.C. laws and regulations for all companies writing insurance in S.C. Within the

Financial Services Division, the Office of General Counsel is charged with the review of summons and complaints served upon the Director of Insurance in his capacity as the agent for service of process for insurers transacting the business of insurance within S.C. and to accept service of pleadings that are served in accordance with S.C. law.

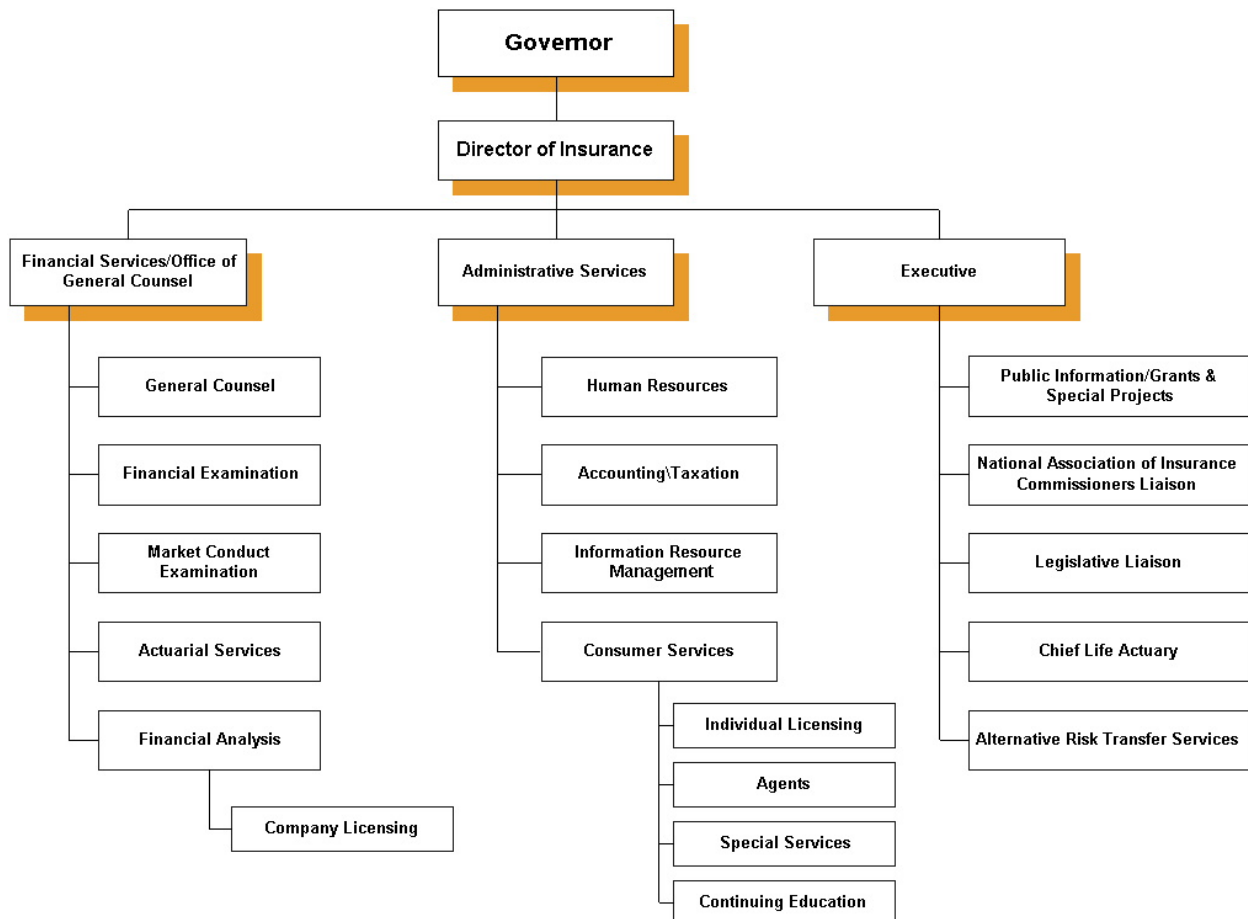
Through the Executive Division of the Department, assistance is provided to the legislative and executive branches of government regarding the creation of new statutes and regulations, the amending of existing statutes and regulations and the resolution of constituent matters.

KEY SUPPLIERS/VENDORS

The Department works with a number of suppliers and vendors. The following is a listing of the businesses and organizations that we conduct business with on a regular basis: The South Carolina Budget and Control Board, Office of Information Resources for technology infrastructure, Central Supply, The South Carolina Department of Corrections, Printing Division, Gateway Company, J.M. Grace Corporation, Xerox Corporation, Minolta Corporation and Expedex Paper Supply Company.

ORGANIZATIONAL STRUCTURE

The S.C. Department of Insurance's organizational structure is outlined below.



CATEGORY 1 - LEADERSHIP

The Department's organizational structure includes the Executive Staff of which the senior management consists of the Executive Director, the Deputy Director of Administrative Services and the Deputy Director of Financial Services and Office of General Counsel. The Executive Staff also includes three Executive Assistants to the Director, the Chief Life Actuary, the Senior Associate General Counsel and managers of each of the offices within the three organizational divisions. The senior management initiates an annual operating plan, which is based on the Department's five-year vision plan. The senior leadership works through the Office of Human Resources to encourage employee recognition and innovation. Continuing education and training is also encouraged through this office. The Department adheres to the State Government Ethics and Accountability Act regarding ethical behavior. We also utilize the services of the State Ethics Commission for filing Statements of Economic Interest and training opportunities.

Customer focus relates directly to the Department's mission as mandated by S.C. law as we are charged with the protection of the public interest and insurance consumers. Therefore, the senior leadership closely monitors the efficiency and accuracy of consumer and constituent inquiries and requests. Information gathered from area work logs determining numbers of consumer requests, etc. is reflected in Category 7. Periodic work sessions and staff meetings with the Executive Staff assist in the monitoring process. These meetings provide opportunities for suggestions and feedback from staff members.

There are several mechanisms used to address the current and potential impact on the public regarding products, programs and services. The most frequently used methods include news articles, interviews, press releases and public hearings that are closely monitored by the public information officer.

Organizational priorities for improvement are communicated through the Department's strategic plan, meetings and discussions with the Director and legislative directives. Office managers discuss these priorities with staff and receive feedback and communication regarding the establishment of practices and processes necessary to meet these goals and priorities.

The Department, senior management and staff members actively support and strengthen the community. Priorities for community involvement are established by the Director, senior management and individual staff member participation. The following is a listing of the organizations and activities supported by the Department and staff members: the National Association of Insurance Commissioners (NAIC) International Securitization Committee, the NAIC International Insurance Relations Committee, the NAIC Small Face Amount Working Group, the NAIC Suitability Committee, the S.C. Insurance Services Budget and Control Board Cost Containment Committee, the Governor's Workers' Compensation Advisory Task Force, the S.C. DHEC First Sounds Advisory Committee, the State Interagency Coordinating Council for BabyNet, a S.C. Early Intervention Program, FEMA Project Impact, Charleston County Community, and the Charleston Home Ownership Center.

CATEGORY 2 - STRATEGIC PLANNING

The Department began the strategic planning process in 1998 as a method for improving its programs and services. All employees participated in the planning process through survey and discussion. This information provided opportunities to analyze an employee's individual duties and division responsibilities so as to efficiently streamline the Department's delivery of services. It also enabled the Department to plan with the future in mind, to set benchmarks, and to develop a long-range strategy that reflects the changing economic environment.

The Director and Executive Staff will continue the strategic planning process this upcoming fiscal year by incorporating the Malcolm Baldrige National Quality Award Criteria. Based on the present status of the state and national economy, the Department will continue to focus on strengthening and streamlining functions and procedures for a more efficient quality performance.

CATEGORY 3 - CUSTOMER FOCUS

The Department of Insurance is a Regulatory and Cabinet Agency. The key customers and stakeholders are South Carolinians, the insurance industry, Legislators and State Government Agencies.

Our key customers are identified through the Department's mission statement, which is derived from S.C. Code Ann. Section 38-3-10, et seq. (1976, as amended, and supp. 1997).

As defined within the Division Offices Business Process Plans (see Category 6 and

7), timely and accurate service is priority in that it directly impacts the customer.

The Director and Executive Staff consider communication and feedback from the customer and stakeholder an important tool for improving the Department's service capabilities. This is achieved through various mechanisms: public meetings, outreach events, advisory committees, public forums, customer surveys, an updated website and focus groups, which are utilized in gathering feedback and information regarding customer satisfaction.

CATEGORY 4 - INFORMATION AND ANALYSIS

Day-to-day processes are in support of the Department's mission statement that is based on the statutory requirements found within S.C. Code Ann. Section 38-3-10, et. seq. (1976, as amended and supp. 1997). Due to the many different services provided by the Department, each Division develops a business process plan based on state and federal mandates for the services and products produced within the Division. The business process plan is developed in concert with the Director, Deputy Directors and Office Managers. Each program area provides feedback to the Managers regarding the effectiveness of the processes.

The various Divisions within the Department maintain correspondence, data logs and monthly reports regarding response and follow-up as well as assignment completion times. The Finance Office within the Division of Administrative Services provides data reports for both the State Treasurer's Office and the Comptroller General regarding the status of financial activities, including the collection of tax premiums.

The Office of General Counsel provides reports to the Deputy Director for Financial Services and the Director regarding the status of summons and complaints served upon the Department. The Office of Financial Examinations provides monthly reports regarding the financial status of companies writing insurance in S.C. as well as status reports regarding findings of market conduct examinations performed by Department financial examiners.

Ongoing analysis of the reports and information provided by the Department Divisions allows the Director and Executive Staff to monitor the status and health of the insurance market in S.C. This is a critical service for South Carolinians. The Market Assistance Program (MAP), within the Office of Consumer Services, collects data, which reveals the need to explore the status of the health insurance market and the importance of the Department's efforts to attract additional companies, which will offer property and casualty insurance products to South Carolinians. To that end, the Department has undertaken several special projects focusing on health insurance, primarily the small group health insurance market, and property and casualty insurance with an emphasis on coastal property initiatives.

The Department is a longstanding member of the National Association of Insurance Commissioners (NAIC). The NAIC is a voluntary organization of the chief insurance regulatory officials of the fifty (50) states, the District of Columbia and four US territories. The NAIC's mission is to protect consumers and help maintain the financial stability of the insurance industry. The collaboration and sharing of ideas between other state insurance departments and the

NAIC provides opportunities to utilize comparative data and information.

CATEGORY 5 - HUMAN RESOURCE FOCUS

Employees of the Department of Insurance are provided opportunities to develop their skills and expertise through various programs and mechanisms. The standard Employee Performance Management System (EPMS) is utilized for a formal method of review. Standard process involves the development of a planning stage for each employee with the involvement of the employee and the manager.

Employees are encouraged to take advantage of training opportunities offered through various federal, state and private organizations. These include the Governor's Office, the State Budget and Control Board, the Federal Emergency Management Agency/National Flood Insurance Program, and the Institute for Business and Home Safety. The staff receives notification of these course offerings through the Department's Division of Administrative Services.

Additional mechanisms for involving the employees in the activities of the organization include Department-wide staff meetings, Department newsletters, and an intranet site for Department employees, as well as e-mail postings regarding employee news and achievements. Employees receive a S.C. Department of Insurance Policy and Procedure Manual and Orientation Packet prior to their first day on the job.

The Department, through the Division of Administrative Services, administers the Recognition Achievement Program. This

program recognizes an employee's achievements. An employee is recognized for their service and work each quarter. The Director has established an Employee Task Force consisting of representatives from each Division that meets to discuss and provide feedback regarding the staff's well being. This Task Force is also responsible for the planning of staff-wide holiday dinners and activities. The Director also organizes an Employee Appreciation Day and provides lunch for Department employees. The Director also hosts an annual Department-wide family outing. This past year, the Department had a pool party and cookout for staff and their families.

The Department provides a safe and healthy environment for its employees. As mentioned in last year's report, the Department moved to a new facility. The improved facility continues to offer a clean, fresh work environment in a pleasant park-like setting. Department employees that are interested also attend an aerobics/exercise class that takes place at the office after work hours. This past summer, the Department's grant funded Child Passenger Safety Awareness Program entitled, Held in Trust, held classes and provided information for Department staff regarding child safety seats and the proper installation of seats in vehicles.

Employees are involved in numerous community activities, which include the Annual Good Health Appeal, the Salvation Army Holiday Kettle Drive, Families Helping Families, the United Way and the First Ladies Annual Walk for Life Campaign.

EXECUTIVE SERVICES

The Executive Division of the Department provides assistance to the legislative and executive branches of government regarding the creation of new statutes and regulations, the amending of existing statutes and regulations and the resolution of constituent matters.

CATEGORY 6 & 7 - PROCESS MANAGEMENT AND BUSINESS RESULTS

LEGISLATIVE

GOAL

The legislative liaison provides assistance to the legislative and executive branches of government regarding the creation of new statutes and regulations, the amending of existing statutes and regulations, and the resolution of constituent matters.

BUSINESS PROCESS

Technical assistance in the drafting of proposed legislation is provided. Such assistance is provided to the Director, legislators and to the legislative committee staff who have requested assistance from the Director and Department. In addition, assistance is provided upon request from legislators and legislative staff in the handling of constituent matters.

PROCESS MEASURES

Bills and regulations on which the Department participated and testified include:

Bills

Subject

S.965	Captive Fund/Special Purpose Captives
S.982	Department Clean-Up Bill
S.1020	SCHIP Expansion-Disabled Under 65
S.1045	Special Purpose Reinsurance Vehicles

H.3822	Limited License for Rental Car Companies
H.4096	Producer Licensing
H.4180	Pre-need Funeral Form Approval
H.4583	Prohibition on Mandates/Task Force
H.4852	Commercial Lines Deregulation
H.5037	Investments of Insurers
H.5105	Uninsured Motorist Database

Regulations Subject

69-15	S.C. Deposits Required of Insurers
69-22	Health Maintenance Organizations
69-26	Salvage and Subrogation
69-56	(withdrawn) Percentage Named Storm or Wind/Hail Deductible

From August 14, 2001 to August 27, 2002, three hundred and ninety seven (397) constituent matters have been reviewed and resolved.

DIVISION OF ADMINISTRATIVE SERVICES

The Division of Administrative Services provides assistance through the Consumer Services Section, Office of Education, the Taxation Section and the Special Services Section. These Sections are charged with the following responsibilities: to provide assistance to consumers regarding insurance related issues, complaints and concerns; the review and approval of sponsors, instructors and courses for both prelicensing and continuing education for insurers; the collection and deposit into the State's General Fund of premium taxes due from insurers and brokers; the administration of licensing programs for agents, agency brokers, adjusters, appraisers, bail bondsmen, runners and surety bondsmen; and the licensing of Third Party Administrators, Premium Service Companies and Utilization Review Companies.

TAXATION

GOAL

The program area annually collects and deposits into the State's General Fund premium taxes due from insurers and brokers. A percentage of these funds are distributed to county governments.

BUSINESS PROCESS

Insurers' premium taxes are collected on a quarterly basis and deposited in the General Fund. Each of the 1,561 premium tax returns is audited beginning March 1. The total premium taxes collected are balanced to the general ledger by June 30. Fire taxes are collected from insurance companies writing in South Carolina by the Department and are then distributed by the State Treasurer to the counties on an annual basis.

Brokers' premium taxes are collected on a quarterly basis and deposited in the General Fund. Brokers report by January 30 a listing of premiums and taxes for the previous calendar year. The total premium taxes collected are balanced by June 30. Taxes collected in the amount of one (1%) percent of property premiums are then distributed by the State Treasurer to the counties on an annual basis.

PROCESS MEASURES

Premium taxes were collected and audits were completed from the four hundred and forty-six (446) fire insurance companies, and a listing of taxes for distribution to the counties was compiled. All taxes were balanced to the general ledger by June 27, 2002.

Brokers' premium taxes were collected and all Summaries of Transactions were reconciled by April 9, 2002 for the one hundred and ninety-four (194) brokers doing business in the State.

On a gross basis, the Department collected in excess of one hundred nineteen (119) million dollars in insurer and broker premium taxes. Of this amount, approximately eight (8) million dollars was distributed to county governments, under five (5) million dollars was transferred to the Department of Labor, Licensing and Regulation, under three (3) million dollars was drawn to cover insolvent self-insured workers' compensation claims, and one hundred thousand (100,000) dollars was retained by the Department to operate the loss mitigation and building codes grant program. The remainder of these taxes was credited to the General Fund. Gross collections were up sixteen (16) million dollars over the previous year and continued a trend of increases in collected insurance tax revenue.

CONSUMER SERVICES AND PUBLIC INFORMATION

REQUESTS FOR ASSISTANCE

GOAL

Consumer Service Representatives respond and resolve consumer complaints/inquiries within thirty days of receipt.

BUSINESS PROCESS

Consumer Service Representatives respond and resolve consumer requests relating to insurance issues, which include unfair sales and advertising, underwriting and claims handling practices.

PROCESS MEASURES

The Office of Consumer Services received three thousand, seven hundred and twenty-four (3,724) written complaints and fifty-nine thousand, one hundred and thirty-nine (59,139) telephone inquiries for fiscal year 2001-2002. Approximately fifty-five percent (55%) of these complaints and inquiries were related to life, accident and health insurance issues while forty-five (45%) involved automobile and other property lines of insurance. Written complaints were tracked in the same percentage manner.

Ninety-five percent (95%) of the written requests for assistance were resolved within fifteen to twenty-one (15-21) days of receipt. Approximately ninety-eight percent (98%) of all telephone inquiries were concluded within the same day of receipt.

CONSUMER INSURANCE EDUCATION

GOAL

The Office of Consumer Services works to improve the consumers' knowledge and

understanding of insurance products marketed in South Carolina.

BUSINESS PROCESS

The Office of Consumer Services increases the public's awareness through outreach activities that include speaking engagements and the distribution of educational brochures.

PROCESS MEASURES

This fiscal year, over one hundred thirty thousand, six hundred and seventy-seven (130,677) brochures regarding automobile, life, health, flood, home, business insurance and disaster insurance were distributed to the public. These efforts were increased through the collaboration with other state agencies as well as the South Carolina Insurance News Service. The Office of Consumer Services also completed forty-three (43) speaking and outreach engagements.

MARKET ASSISTANCE PROGRAM

GOAL

The Market Assistance Program (MAP) was developed as a tool to assist consumers in locating hard-to-place coverage. Insurance providers that offer coverage for individuals with specific conditions and risks are listed in the MAP Directory, which is made available to the public through the Office of Consumer Services.

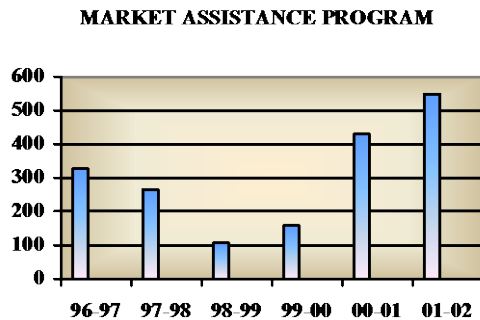
BUSINESS PROCESS

The Office of Consumer Services conducts an annual review of the available markets and updates the MAP Directory. In addition to this service, the Insurance Regulatory Analysts respond to requests for assistance in locating these providers.

PROCESS MEASURES

The Office of Consumer Services responded to five hundred and forty-nine (549) requests for assistance this fiscal year. The number of requests increased by twenty-eight percent (28%) from the 2000-2001 fiscal year. The majority of the requests were related to health insurance coverage for consumers.

TREND DATA



DISASTER RESPONSE

GOAL

The Office of Consumer Services responds to consumer requests for assistance with insurance issues following a natural disaster.

BUSINESS PROCESS

The Department of Insurance has in place an Emergency Response Plan that is initiated by the Director and is facilitated through the Director's Office. The Office of Consumer Services has a critical role in this plan. By providing constant telephone access for the public via the toll-free number, the Office of Consumer Services is able to maintain communications during the aftermath of a disaster.

PROCESS MEASURES

To date South Carolina has been spared during this hurricane season and has had relatively few hailstorms and inland or coastal flooding. The Office of Consumer

Services has responded to fewer requests from property owners for assistance involving storm related losses.

INDIVIDUAL LICENSING AND EDUCATION

GOAL

The Division of Licensing is charged via statute with the responsibility of accurately and efficiently issuing agent, agency, broker, adjuster and appraiser licenses.

BUSINESS PROCESS

The Division accurately and efficiently issues the aforementioned licenses within twenty-four to seventy-two (24-72) hours of receipt of properly completed licensing paperwork.

PROCESS MEASURES

Approximately ninety-eight percent (98%) of all properly completed agent license applications submitted were issued within twenty-four to seventy-two (24-72) hours of receipt. As of June 30, 2002, six thousand one hundred and sixty-two (6,162) agency licenses were in force. This is an increase of twenty-seven percent (27%) from last year. A total of three hundred ninety-five thousand, two hundred and one (395,201) appointments for agents, brokers, adjusters and appraisers were in force as of June 30, 2002. Additionally, twenty-three thousand, nine hundred and five (23,905) new agent, agency, adjuster, appraiser, public insurance adjuster and broker appointments were issued this fiscal year. Seventy-one (71) applications submitted by agents, adjusters, appraisers and brokers were denied and three thousand, three hundred and sixty-seven (3,367) licensing packets were returned as being incomplete. Sixty-eight thousand, six hundred and twenty-one (68,621) individuals, thirteen thousand and

eighty-four (13,084) adjusters, nine hundred and forty-seven (947) motor vehicle physical damage appraisers, one hundred and eighteen (118) public adjusters and one thousand, four hundred and forty-three (1,443) brokers held licenses to transact insurance business in South Carolina this fiscal year.

SPECIAL SERVICES

GOAL

The Division of Special Services is required to accurately and efficiently issue bail bondsmen, runners and surety bondsmen licenses following a careful review of submitted applications. The Division is also required to process annual renewals of licenses and to collect appropriate fees.

BUSINESS PROCESS

The Division administers the licensing of professional bail bondsmen and runners in accordance with state statute and maintains licensing records. Licenses are issued within ten (10) days following individual clearance from state and federal authorities.

PROCESS MEASURES

This past fiscal year, six hundred and forty-nine (649) professional bail bondsmen, runners and surety bondsmen were licensed by the Department within ten (10) days of receipt of the completed applications. License and renewal fees were fifty-eight thousand, six hundred dollars (58,600) for bail bondsmen and runners. This represents a thirteen percent (13%) increase from the prior fiscal year. There is no fee required for the licensing of surety bondsmen.

THIRD PARTY ADMINISTRATOR LICENSES

GOAL

The Division of Special Services issues via statute Third Party Administrator (TPA) Licenses.

BUSINESS PROCESS

The Division administers the licensing of TPA(s) in accordance with state statute. Licenses are issued within ten (10) days.

PROCESS MEASURES

This fiscal year, two hundred and fifty-eight (258) TPA(s) were licensed. This represents a fifty-six percent (56%) increase from the prior fiscal year where two hundred and fifteen (215) TPA(s) were licensed. On average, these licenses were issued within the projected ten-day period.

PREMIUM SERVICE COMPANY LICENSES

GOAL

The Division of Special Services issues Premium Service Company Licenses and maintains records of the licenses as defined by statute.

BUSINESS PROCESS

The Division administers the licensing of Premium Service Companies in accordance with state statute. Licenses are issued after the applicant meets statutory requirements and the forms are reviewed and approved by the Office of Actuarial Services.

PROCESS MEASURES

This fiscal year, eighty-eight (88) Premium Service Companies were licensed representing a six percent (6%) increase from the prior fiscal year where eighty-three (83) Premium Service Companies were

licensed. On average, these licenses were issued within a thirty (30) day period.

During the March 2002 annual renewal, seventy-eight (78) renewal applications were processed with a ninety-seven percent (97%) renewal rate. The financial statements of all eighty-three (83) Premium Service Companies were reviewed by March 31, 2002.

UTILIZATION REVIEW COMPANIES

GOAL

Private Review Agent (Utilization Review Companies) Licenses and biennial renewals are issued by the Division of Agents Licensing as defined by state statute.

BUSINESS PROCESS

The Division administers the licensing of Utilization Review Companies in accordance with state statute.

PROCESS MEASURES

This fiscal year, sixty-eight (68) Utilization Review Companies, out of the one hundred and twenty-three (123) from last fiscal year, completed their biennial review process.

SERVICE CONTRACT PROVIDERS

GOAL

The Division of Special Services issues Service Contract Providers' licenses following careful review of applications and qualifications and maintains records of those licenses. This Division also processes annual renewals of licenses and collects the appropriate fees.

BUSINESS PROCESS

The Division administers licensing of Service Contract Providers in accordance with Chapter 78, of Title 38, of the South Carolina Code of Laws. Licenses are issued within fifteen (15) days after the applicant meets statutory requirements and the forms are reviewed and approved by the Special Services Division. Licensing records are properly maintained in accordance with statutory guidelines.

PERFORMANCE MEASURES

As of June 30, 2002, one hundred and forty-eight (148) Service Contract Providers were licensed by the Department of Insurance. License and renewal fees collected as of June 30, 2002 totaled thirty-two thousand three hundred (32,300) dollars.

EDUCATION

GOAL

The Division accurately and efficiently reviews and approves sponsors, instructors and courses for preclicensing and continuing education. The Division also administers the South Carolina Department of Insurance examination process.

BUSINESS PROCESS

The Division, with the assistance of a review board as outlined in Chapter 43, Title 38, Regulation 69-23 and 69-50 of the South Carolina Code of Laws, administers the review and approval of sponsors, instructors and courses for continuing education.

The Department contracts with six (6) technical colleges throughout South Carolina to administer the twenty-four (24) insurance examinations. The Division is responsible for the oversight of the state's insurance examinations and the proctoring process.

PROCESS MEASURES

This fiscal year, nine hundred and eighty-four (984) new and two hundred and eighty-seven (287) renewal continuing education courses were approved. Four hundred and twenty-two (422) continuing education instructors and twenty-seven (27) continuing education sponsors were also approved.

In addition, six (6) pre-licensing courses for life, accident and health insurance, as well as, four (4) new pre-licensing courses for property and casualty insurance were approved.

Seven thousand, six hundred and nine (7,609) insurance examinations with an overall pass rate of seventy-one (71%) were administered this fiscal year. This represents a three percent (3%) increase from the number of examinations given the prior fiscal year.

DIVISION OF FINANCIAL SERVICES

The Division of Financial Services is charged with the following responsibilities: monitoring the financial solvency and trade practices of insurers transacting business within the State of South Carolina, including the approval of some of the rates charged and products sold; licensing insurers and health maintenance organizations; and enforcing the laws of the State of South Carolina. The following discussion highlights some of the accomplishments of the Division during the past fiscal year by section. The Division of Financial Services consists of the Financial and Market Conduct Examination Sections, the Financial Analysis Section, the Life, Accident and Health and Property and Casualty Sections and the Office of the General Counsel.

FINANCIAL EXAMINATIONS

GOAL

Monitoring the solvency and trade practice of insurers are the primary regulatory responsibilities of an insurance department. This Department performs these functions through the Financial Examinations, Market Conduct Examinations and Financial Analysis Sections of the South Carolina Department of Insurance.

It is the goal of the Financial Examinations Section to perform financial examinations on each domestic insurer no less than once every five (5) years, and each domestic health maintenance organization no less than once every three (3) years in accordance with the requirements of South Carolina law. These examinations may be either comprehensive (full scope) or target examinations (limited scope). These examinations test for internal controls, management issues and the financial condition of the company. Most examinations performed by this Department are comprehensive examinations. Target financial examinations may be conducted more frequently than comprehensive examinations and often focus on a specific issue of regulatory concern. Target examinations supplement the regularly scheduled comprehensive examination.

BUSINESS PROCESS

Financial examinations are conducted to detect as early as possible those insurers and health maintenance organizations which are considered to be financially troubled or which are in violation of state statutes or which are engaging in unlawful or improper marketing activities. Toward this end, the Financial Examinations Section works closely with the Financial Analysis and Market Conduct Examination Sections. Each Section reports any signs of potential financial trouble to this Section so that the appropriate financial examination may be conducted.

PROCESS MEASURES

Financial examinations are scheduled based upon the financial performance of the company and the priority, which may be assigned by the Financial Analysis Section. Eighteen (18) financial examinations of insurers were commenced during the period from July 1, 2001 to June 30, 2002. Three (3) examinations were based on a one-year schedule, one (1) examination was based on a two-year schedule, seven (7) examinations were based on a three-year schedule, four (4) examinations were based on a four-year schedule, and three (3) examinations were based on a five-year schedule.

One (1) examination of a health maintenance organization was commenced during the period from July 1, 2001 to June 30, 2002 based on a three-year schedule.

An examination of two (2) priority companies was commenced during this period. No later than sixty days following the completion of each examination, information was developed for timely, appropriate regulatory action where necessary. A copy of the examination report is forwarded to the Director and Office of General Counsel for institution of the appropriate administrative disciplinary action.

Although violations may have been detected in some instances, the domestic insurers and health maintenance organizations examined were deemed to be in substantial compliance with South Carolina insurance or health maintenance organization's statutes, financially sound, and able to meet their obligations to its South Carolina policyholders or enrollees.

MARKET CONDUCT EXAMINATIONS

GOAL

The Market Conduct Examination Section audits the trade practices of insurers licensed to transact the business of insurance within the State of South Carolina. Market conduct examinations test the claims practices of the insurer or HMO and whether the insurer or HMO is utilizing approved rates and selling approved products. Moreover, this Section also checks for general compliance with the insurance laws of the State.

The Market Conduct Section follows a similar examination schedule as that followed by the Financial Examinations

Section. The Department is required by statute to perform a comprehensive market conduct examination on each domestic insurer no less than once every five (5) years, and each domestic health maintenance organization no less than once every three (3) years. Examinations of premium finance companies, bail bondsmen, third party administrators, agencies, agents, and any other entity conducting the business of insurance in South Carolina are also the responsibility of this examination Section, if necessary.

Target examinations may be performed from time to time on a specific market issue on all companies licensed in this state (both domestic and non-domestic), as conditions dictate. The target examinations conducted during the past fiscal year audited race-based pricing practices, claims practices and whether companies were complying with various provisions of South Carolina insurance laws.

BUSINESS PROCESS

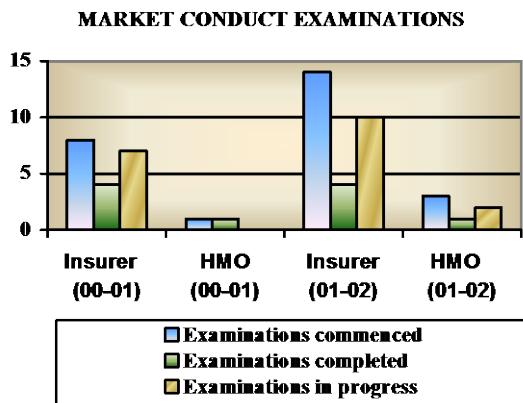
Market Conduct Examinations are conducted to detect as early as possible those insurers, health maintenance organizations and other entities conducting the business of insurance, which may be in financial trouble, in violation of state statutes, or engaging in improper marketing, claims, rating, or other trade practices.

PROCESS MEASURES

Fourteen (14) market conduct examinations of insurers were commenced during the period July 1, 2001 to June 30, 2002. Nine (9) of these examinations were based on a five-year schedule and five (5) were target examinations. Four (4) examinations were completed during this time period.

One (1) target examination of a health maintenance organization was completed during the time period July 1, 2001 to June 30, 2002 and two (2) three-year exams commenced during this time period. The purpose of this target examination was to audit the claims practices of the HMO.

TREND DATA



Insurance departments are relying more on target examinations to audit the trade practices of insurers. Target examinations allow a department to focus its resources on the specific issue upon which it is receiving complaints about the insurer. These examinations supplement the regular examinations conducted by this Department. Additionally, there is a trend within the market to conduct more multi-state or zone examinations. This trend appears to be based upon the concerns raised by industry over the cost of market conduct examinations.

FINANCIAL ANALYSIS

GOAL

One of the primary objectives of solvency monitoring is to ensure that companies are complying with regulatory standards and to alert regulators if action needs to be taken against an insurer to protect policyholders. Solvency monitoring involves examinations, but it also encompasses financial reporting and the detection of potential financial trouble through regular financial analysis of the financial statements filed by insurers and HMOs. Insurers are required to file annual and quarterly financial statements by specific dates. South Carolina law requires the annual statement to be filed by March 1 and quarterly statements must be filed with the Department by June 1, September 1, and December 1. Through the financial analysis function, this Department monitors indicators of excessive financial risk which may place a company in hazardous financial condition and trigger regulatory action including, but not limited to, suspension or revocation of the insurer's or HMO's certificate of authority or placing the insurer under administrative supervision, rehabilitation, conservations or in liquidation.

South Carolina law requires the Department to monitor the financial condition and operations of insurers, eligible surplus lines insurers, and health maintenance organizations conducting business in this State, which have been licensed or approved by this Department under the provisions of the South Carolina insurance and health maintenance organization statutes. The Financial Analysis Section monitors the solvency of insurers through regular analysis of its financial statements and other relevant financial information. Companies are

monitored to detect as early as possible transactions that involve significant financial risk, which may threaten the overall financial condition of the insurer.

BUSINESS PROCESS

Within the guidelines of South Carolina insurance and health maintenance organization statutes, the Department analyzes financial and other available relevant information, of all insurers, eligible surplus lines insurers, and health maintenance organizations which have been licensed or approved by this Department to conduct business in this State in order to ensure that each will be able to meet its financial responsibilities and obligations to policyholders, enrollees and creditors.

Annually, beginning March 1, the financial statements of 1) all domestic insurers and health maintenance organizations are reviewed by April 1 each year; 2) all foreign priority insurers and health maintenance organizations are reviewed by June 1 each year; and 3) all remaining insurers and health maintenance organizations are reviewed by September 15 each year. Regulatory action may be taken based upon the results of the foregoing analyses. If it is detected that a company may have entered into a transaction that poses a significant financial risk to its solvency, the Financial Analysis Section will alert the Financial Examinations and other appropriate Sections of the Department to ensure that the necessary regulatory action is taken for the protection of South Carolina policyholders.

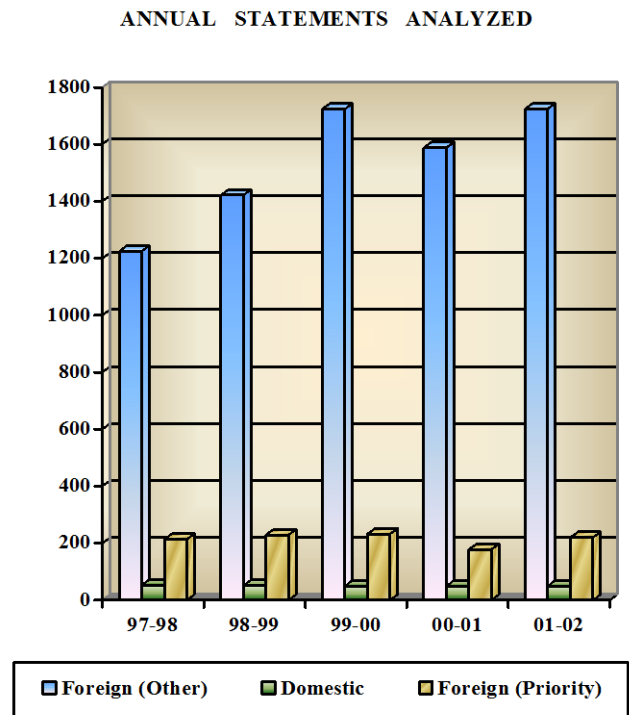
PROCESS MEASURES

Commencing March 1, 2002, the financial statements of: 1) fifty (50) domestic insurers and health maintenance organizations were reviewed by May 1, 2002; 2) two hundred and twenty (220) foreign priority insurers,

eligible surplus lines insurers, and health maintenance organizations were reviewed by July 1, 2002; and 3) one thousand, seven hundred and twenty-five (1,725) remaining insurers, eligible surplus lines insurers, and health maintenance organizations were reviewed by September 15, 2002.

Between July 1, 2001 and June 30, 2002, six (6) insurers were requested to, and did, place an additional deposit with this Department for the protection of South Carolina policyholders; seven (7) insurers voluntarily agreed to cease writing new business in South Carolina; the certificates of authority of ten (10) insurers were suspended by the Director of Insurance; and the certificates of authority of seven (7) insurers were revoked by the Director of Insurance.

TREND DATA



SECURITIES CUSTODIAN

GOAL

Insurers are required to place securities and other instruments on deposit for the protection of policyholders. The Department is responsible for receiving, verifying, depositing, withdrawing and maintaining control of all securities on deposit with this Department for the protection of the South Carolina policyholders, enrollees and creditors of insurers, eligible surplus lines insurers, and health maintenance organizations conducting business in this State.

BUSINESS PROCESS

The Department accurately maintains the deposits of domestic and foreign insurers, domestic and foreign health maintenance organizations, eligible surplus lines insurers, premium service companies and third party administrators.

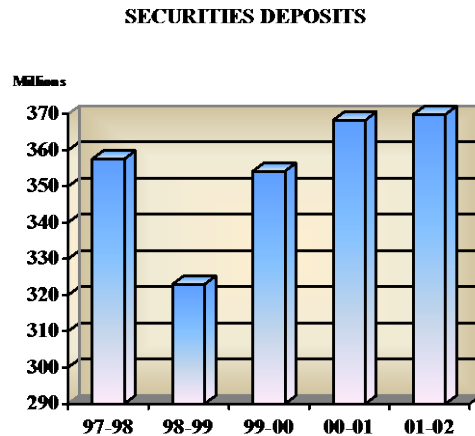
PROCESS MEASURES

Deposits totaling three hundred and sixty-nine million, nine hundred and seventeen thousand, seven hundred and seventy-seven (\$369,917,777) dollars were held by the Director of Insurance on behalf of one thousand, two hundred and fifty-three (1,253) licensed insurers, eligible surplus lines insurers, health maintenance organizations, premium service companies, service contract providers and third party administrators as of June 30, 2002.

The type and market values of the securities placed by each entity was verified for compliance with South Carolina insurance statutes and regulations. Transactions to the Department's Company Securities System during the period from July 1, 2001 to June 30, 2002 totaled eight hundred and eighty (880) - four hundred and twenty-five (425)

deposits and four hundred and fifty-five (455) withdrawals. Companies with a net worth in excess of \$10 million may place securities on deposit with their home state. They are not required to maintain a deposit in South Carolina.

TREND DATA



INSURER AND HEALTH MAINTENANCE ORGANIZATION LICENSING

GOAL

The Division reviews financial and other pertinent information submitted by insurers, eligible surplus lines insurers, and health maintenance organizations applying to conduct business in this State in order to determine compliance with South Carolina insurance and health maintenance organization statutes. The results of this review provide information as to whether or not the insurer should be issued a certificate of authority to transact the business of insurance within this State.

BUSINESS PROCESS

Through analysis, within the guidelines of South Carolina insurance and health maintenance organization statutes, the

Department reviews financial and other information submitted by insurers, eligible surplus lines insurers, and health maintenance organizations applying to conduct business in this State in order to ensure that each will be able to meet its financial responsibilities and obligations to policyholders, enrollees and creditors.

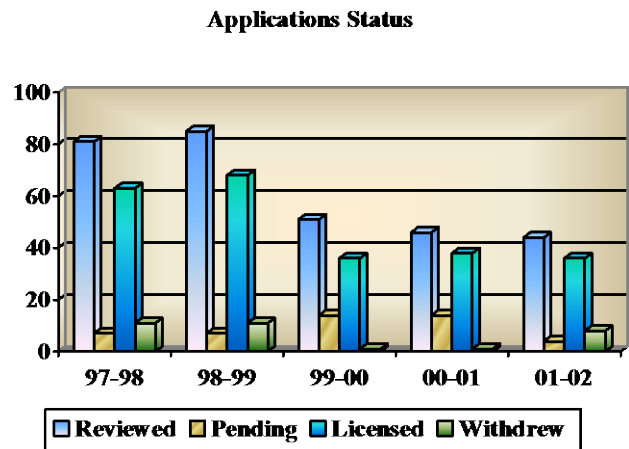
All insurers, eligible surplus lines insurers, and health maintenance organizations that submit properly completed applications and which comply with South Carolina insurance and health maintenance organization statutes should be licensed within sixty days from receipt of the application. The Financial Analysis Section presents the application of insurers seeking a certificate of authority to the Committee on Applications. The Committee on Applications considers the application of the insurer and votes upon whether it should recommend licensure to the Director or his designee.

PROCESS MEASURES

From July 1, 2001 to June 30, 2002, applications from forty-four (44) insurers, eligible surplus lines insurers, and health maintenance organizations were received, reviewed and analyzed. Thirty-six (36) of the applications were deemed to be in compliance with South Carolina insurance, eligible surplus lines insurer, and health maintenance organization statutes.

These insurers were licensed or approved, on average, within sixty (60) days from receipt of the application. As of June 30, 2002, four (4) of the applications remained pending and eight (8) were withdrawn or deferred due to their failure to be in compliance with South Carolina insurance statutes.

TREND DATA



MAINTAINING AND RESPONDING TO INQUIRIES REGARDING THE DEPARTMENT'S HISTORICAL DATABASES

GOAL

This Section reviews transactions involving insurers, eligible surplus lines insurers, risk purchasing groups, health maintenance organizations, and other entities licensed in this State by this Department so as to document those transactions on the Department's Company Licensing System and to respond to inquiries regarding historical information.

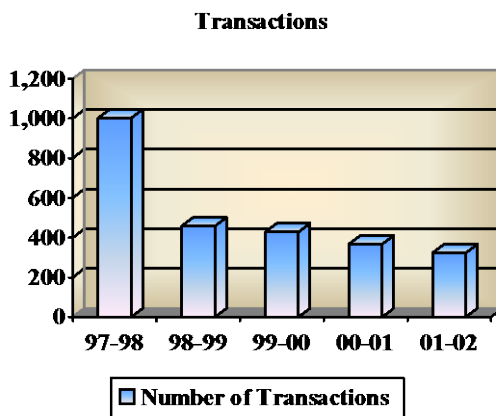
BUSINESS PROCESS

The Section accomplishes these reviews by receiving information regarding the transaction of insurers, eligible surplus lines insurers, risk purchasing groups, health maintenance organizations, and other licensed entities within thirty (30) days of their effective dates, and reviewing and recording the transactions within five (5) working days from date of receipt of the information.

PROCESS MEASURES

From July 1, 2001 to June 30, 2002, three hundred and twenty-four (324) transactions were reviewed and recorded on the Department's databases. Approximately twelve thousand (12,000) telephone inquiries (1,000/month) requesting information regarding the Department's Company Licensing System were responded to during this period.

TREND DATA



SOUTH CAROLINA REINSURANCE FACILITY

GOAL

The South Carolina Reinsurance Facility (SCRF), a non-profit unincorporated legal entity, provided reinsurance, at the option of the ceding automobile insurer. However, these cessions must be confined to quota share reinsurance of either a one hundred percent (100%) quota share of the risk or to any other quota share reinsurance the Department may permit. The South Carolina Reinsurance Facility is currently in run-off.

In 1999, the South Carolina Reinsurance Facility was replaced with the South Carolina Associated Auto Insurers Plan, a joint underwriting association (JUA). The

JUA will continue in existence until March 1, 2003. It will then be replaced by an assigned risk plan in accordance with South Carolina law.

BUSINESS PROCESS

The Department is charged with responsibility of monitoring the activities of the SCRF to ensure its compliance with state statutes through the attendance and oversight of all operating committee and sub-committee meetings.

PROCESS MEASURES

Currently the Facility's policy in force count shows fewer than five thousand (5,000) policies in force. It is anticipated that by March 1, 2003, there should be no policies left. The Facility run-off should be completed.

SC ASSOCIATED AUTO INSURANCE PLAN

GOAL

The South Carolina Associated Auto Insurance Plan (SCAIP) was established by state statute as a mechanism to provide automobile insurance for the State's high-risk drivers. It replaced the South Carolina Reinsurance Facility as the residual market mechanism for auto insurance from March 1, 1999 through February 28, 2003.

BUSINESS PROCESS

The Department is charged with the responsibility of monitoring the activities of the SCAIP, its board and auxiliary services, in order to assure its actions comply with state statutes.

PROCESS MEASURES

This was the third full year of operation for the SCAIP as the new automobile insurance residual market mechanism. To

date less than five hundred (500) personal and commercial risks have been insured through this mechanism. It was anticipated that several hundred thousand auto risks would have normally been insured through the SCRF. This low number of actual insured risks demonstrates the effectiveness of the recent reform in the regulation of automobile insurance.

POLICY FORMS REVIEW

GOAL

The Department is charged with protection of the insurance-buying public by ensuring that policy forms are in compliance with the laws and regulations of South Carolina. Forms regulation is an integral part of monitoring the market conduct of insurers.

BUSINESS PROCESS

These Sections review property, casualty, life, accident and health insurance policy forms to ensure that they are in compliance with the laws and regulations of South Carolina and that they do not contain provisions that are unfair, deceptive, ambiguous, misleading or unfairly discriminatory. Our objective is to perform accurate and thorough reviews and to complete these reviews within a reasonable review period. The length of time varies between thirty (30) and sixty (60) days depending on the type of policy form.

PROCESS MEASURES

There are several performance measures for the review of policy forms: number of policy forms received, the number of forms approved, the number of forms received for information only, the number of forms disapproved, the number of forms pending and the average date of the forms on which the analysts are currently working. The Department utilizes checklists to review

compliance with South Carolina statutory requirements.

For the Life, Accident and Health division during fiscal year 2001-02, the Division received five thousand, eight hundred and twenty-seven (5,827) new filings. These forms were reviewed within an average of 30 days. At the end of fiscal year 2001-02, the policy forms analysts, on average, were reviewing forms within an average of thirty (30) days.

During fiscal year 2001-02, the Property and Casualty Division received a total of seven thousand, eight hundred and sixty (7,860) new form, rule and rate filings. These filings were completed within an average of thirty (30) days.

POLICY RATES REVIEW

GOAL

These Sections are responsible for ensuring that benefits under Individual Accident and Health insurance policies are not unreasonable in relation to premiums charged and to ensure that rates for Property and Casualty insurance are neither excessive, inadequate nor unfairly discriminatory.

BUSINESS PROCESS

The Sections review individual accident and health insurance rates and individual health maintenance organization rates to ensure that benefits provided in the policies are not unreasonable in relation to the premiums charged. Our objective is to perform accurate and thorough reviews and to complete these reviews within a reasonable period. The length of time varies between thirty (30) and ninety (90) days depending on the type of policy form. In addition to reviewing rates for new policy forms and

requests for rate increases, several other duties are performed to ensure that benefits provided in the policies are not unreasonable in relation to the premium charged.

Within the Property and Casualty Section, a notice of filing is required when an insurer has written premium of two million (2,000,000) dollars, and an increase in a policyholder's rate is requested. The notice of filing is published in five newspapers of general statewide circulation. This notice provides the public with an opportunity to request a public hearing on the rate change request. A public hearing is required, if requested, in accordance with South Carolina law.

PROCESS MEASURES

There are several performance measures for the review of policy rate form filings: total number of rate filings reviewed, the number rate filings reviewed for new policy forms, the number of rate filings reviewed for rate increases requests, average date of the rate filings for new policy forms on which the analysts are currently working and the average date of filings for rate increases on which the analysts are currently working.

During fiscal year 2001-02, the Life, Accident and Health Division reviewed four hundred and ninety-three (493) Accident & Health rate filings for existing products. One hundred and thirty-six (136) Accident & Health rate filings were reviewed for new or proposed products.

The measure for fiscal year 2001-02 indicates that a large number of reviews were performed in a timely fashion. This helps the consumer by ensuring that insurers are not charging rates that are unreasonable in relation to the benefits provided.

ASSISTANCE AND TRAINING

GOAL

These Sections provide technical assistance and training on Property, Casualty, Life, Accident and Health insurance issues to the Director of Insurance, to other divisions of the Department, and to consumers.

BUSINESS PROCESS

These Sections train and assist volunteers in the I-Care program with respect to Medicare supplement insurance and other forms of health insurance, and provide general assistance to South Carolina consumers on issues that cannot be handled by the Consumer Services Section of the Department. In addition, the Property and Casualty and Life, Accident and Health Sections conduct forums, seminars and other programs designed to educate members of the insurance industry on changes to laws, regulations and bulletins that affect the insurance industry.

PROCESS MEASURES

Members of these Sections participated in or conducted the following presentations and workshops during the past fiscal year: I-Care presentations; the Disability Forum; 71st LHCA Meeting; SOGCA Meeting; Florence Association of Insurance and Financial Advisors; Clemson Association of Independent Agents; S.C. Low Country Independent Agents; Marsh Company, Greenville, S.C.; the Spartanburg Association of Independent Agents; the SERA Conference hosted by the Florida Department of Insurance; and the Drake Exam Review Workshop.

CONSUMER ASSISTANCE

GOAL

The Division provides accurate, timely, courteous and professional assistance to consumers with respect to technical issues and supports our Office of Consumer Services with respect to rating issues.

BUSINESS PROCESS

The Life, Accident and Health Section maintains an accurate consumer guide for Medicare supplement insurance that contains premium rates for all standardized plans of all insurers approved for sale in South Carolina and updates this guide quarterly. The Life, Accident and Health Section, as well as, the Property and Casualty Section also assists with technical consumer complaints and problems with respect to life, accident and health and property and casualty insurance in a courteous and timely fashion.

PROCESS MEASURES

The Medicare Supplement Premium Comparison Guide was updated and published on November 1, 2001 and May 1, 2002. The Life, Accident and Health Division processed approximately one hundred and ten (110) consumer complaints involving rating issues while the Property and Casualty Division processed fifty-four (54) consumer complaints involving rating issues.

FINANCIAL CONDITION AND RESIDUAL MARKETS

GOAL

The Property and Casualty Section also provides technical expertise regarding

actuarial principles involved in measuring the financial condition of insurers.

BUSINESS PROCESS

The Property and Casualty Actuary assists in solvency monitoring by providing technical assistance on financial condition examinations through providing actuarial opinions on loss reserves, assessing company practices with regard to claims operations, and evaluating market conduct practices.

PROCESS MEASURES

Actuarial assistance was provided on the examinations of the following companies:

South Carolina Insurance Company
Catawba Insurance Company
South Carolina Farm Bureau Insurance Company
Capital City Insurance Company

The time budgeted for the actuarial component of an examination may be constrained by the completion date scheduled for the examination. Effective financial condition examinations prevent insurer insolvency. The actuarial analysis is a critical part of this process.

RESIDUAL MARKETS

GOAL

The Division represents the Department of Insurance on the boards of various mechanisms for residual markets in South Carolina and ensures their orderly operation.

BUSINESS PROCESS

The Department is charged with supervision of several residual market mechanisms in order to ensure their adequate performance and solvency. Residual market mechanisms include the following:

South Carolina Associated Auto Insurers
South Carolina Wind and Hail Underwriting Association
South Carolina Reinsurance Facility
South Carolina Medical Malpractice Joint Underwriting Association
South Carolina Property and Casualty Guaranty Association
South Carolina Life, Accident and Health Guaranty Association
South Carolina Health Insurance Pool
South Carolina Workers' Compensation Assigned Risk Plan
South Carolina Small Employer Insurer Reinsurance Program

PROCESS MEASURES

The staff attends many of the meetings held and participates in committee work. Each residual market mechanism performed adequately with staff involvement in all phases of their activities.

GENERAL COUNSEL

The Office of General Counsel provides various forms of legal representation to the South Carolina Department of Insurance. These activities include, but are not limited to: acceptance of service of process; drafting legal documents including bulletins, Requests for Proposals, contracts and legislation; representing the Department in both state and federal courts; providing advice and counsel to the various divisions and sections of the Department through training and technical assistance programs; providing advisory opinions to members of the general public on the South Carolina insurance laws; and initiating enforcement or administrative disciplinary action against persons charged with violating the insurance laws of the State of South Carolina. Highlighted below are some of the more significant activities of this office during

fiscal year 2001-02. The Office of General Counsel has experienced a forty (40%) percent reduction in staff as a result of state budget cuts.

ACCEPTANCE OF SERVICE OF PROCESS

GOAL

The Office of the General Counsel is charged with the review of summons and complaints served upon the Director of Insurance in his capacity as the agent for service of process for insurers transacting the business of insurance within the State of South Carolina and to accept service if pleadings are served in accordance with South Carolina law.

BUSINESS PROCESS

The Office accepts or rejects service of process on the same day the Office of General Counsel receives the summons and complaints.

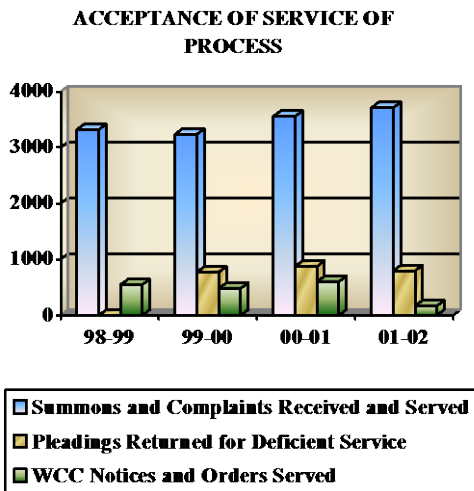
PROCESS MEASURES

During fiscal year 2001-02, the Office of General Counsel received approximately three thousand, seven hundred and twelve (3,712) summons and complaints in civil actions to be served upon insurers transacting the business of insurance within the State of South Carolina. Additionally, the Office received and served one hundred and seventy-one (171) pleadings from the South Carolina Workers' Compensation Commission. This represents a nine percent (9%) decrease over the civil action pleadings processed during last fiscal year, when the Office of General Counsel successfully processed and served three thousand, five hundred and fifty-five (3,555) summons and complaints for civil actions and six hundred and one (601) pleadings from the Workers' Compensation Commission. Seven hundred

and ninety-seven (797) pleadings were initially returned to counsel for deficient service upon the Director of Insurance during fiscal year 2001-02. The number of returns decreased by nine percent (9%) from eight hundred and seventy-six (876) during fiscal 2001-02. Thirty-seven thousand, one hundred twenty (\$37,120) dollars was collected in service of process fees for this fiscal year. This Office collected one thousand, seven hundred ten dollars (\$1,710) in service of process fees for the Workers' Compensation Commission during the 2001-02 fiscal year compared to six thousand, ten (\$6,010) dollars in 2001-02.

This service has a significant impact upon the resources of this Office. Approximately forty percent (40%) of an employee's time is spent processing the documents received and contacting attorneys who have not properly served the documents upon the Department. The additional time spent contacting attorneys who have not properly served the documents has contributed to the decrease in the number of returned pleadings.

TREND DATA



RESPONDING TO REQUESTS FOR INFORMATION

GOAL

The Office is required to respond to requests for information in accordance with the South Carolina Freedom of Information Act.

BUSINESS PROCESS

Staff responds to requests for information within fifteen (15) working days.

PROCESS MEASURES

During fiscal year 2001-02, it is estimated that the Office of General Counsel received at least ninety-one (91) requests for information under the Freedom of Information Act. The majority of these were requests for information regarding disciplinary actions taken against insurance agents. All indications are the amount of requests for information will increase. It is estimated that each attorney handled at least two or three such requests per month.

This figure does not include oral requests for information or requests that are easily handled over the telephone in accordance with the provisions of the South Carolina Freedom of Information Act.

There is one staff member who is primarily responsible for responding to such requests. The total number of verbal requests received during each fiscal year is an estimate. The Office continues to work on the development of a system which will enable the Office of General Counsel to better track the number of such requests received and the number of hours spent compiling information in response to such requests.

PROVIDING INTERPRETATIONS OF SOUTH CAROLINA INSURANCE LAWS

GOAL

The Office of General Counsel provides interpretations of the South Carolina insurance laws to members of the Department, industry, general public and state government.

BUSINESS PROCESS

Staff responds to requests for interpretations of the South Carolina insurance laws within thirty days' receipt of the request.

PROCESS MEASURES

The Office of General Counsel responded to one hundred and eighty-six (186) requests for interpretations of the South Carolina insurance laws. The great majority of these were requests by agents, agencies and insurers about whether a proposed action or business practice would constitute a violation of the South Carolina insurance laws. These interpretations are informal in nature and do not constitute legal advice. It is anticipated that providing this service may prevent some insurers and agents from engaging in conduct that may be in violation of the South Carolina insurance laws. Requests for such opinions and consultations with counsel are increasing. Therefore, the caller is asked to place such requests for assistance in writing to the Office of General Counsel.

PROVIDING ADVICE AND COUNSEL ON THE LEGAL IMPLICATIONS OF PROPOSED ACTION OR POLICY

GOAL

The Office of General Counsel provides advice and counsel to the supervisory staff of the South Carolina Department of Insurance on the legal implications of proposed action or policy.

BUSINESS PROCESS

The staff provides advice and counsel to the supervisory staff of the Department on matters such as policy development, license denials, appeals, insurer suspensions and market conduct examinations.

PROCESS MEASURES

The Office of General Counsel routinely receives requests for advice and opinions from the staff of the South Carolina Department of Insurance.

This service enables the Department to avoid some potential legal problems and ensures that the Department is operating in compliance with state and federal laws. The number of calls received by the Office of General Counsel appears to be on the rise.

ADMINISTRATIVE DISCIPLINARY PROCESS

GOAL

The Department is responsible for investigation of violations of the South Carolina insurance laws and to impose administrative disciplinary action where appropriate.

BUSINESS PROCESS

The Office of General Counsel staff investigates allegations that the South Carolina insurance laws have been violated and imposes administrative disciplinary action where appropriate.

PROCESS MEASURES

The Investigations Section of the Office of General Counsel opened five hundred and seventy-three (573) investigation files during the past fiscal year. It closed four hundred and fifty-eight (458) investigation files. Ninety (90) of those actions resulted in administrative fines totaling two hundred sixty-six thousand (\$266,000) dollars; and sixteen (16) resulted in revocations. The Department did not issue any license suspensions this fiscal year. Seven (7) files were referred to the Insurance Fraud Division of the South Carolina Attorney General's Office for criminal investigation and prosecution.

ADMINISTER RECEIVERSHIPS ON BEHALF OF THE STATE OF SOUTH CAROLINA

GOAL

The Office of General Counsel monitors the insurers placed under suspension, in receivership, or liquidation and distributes the assets in accordance with South Carolina law.

BUSINESS PROCESS

The staff is responsible for resolving five (5) pending receiverships held over from the previous fiscal year and reviewing the financial holdings and open receiverships for all revoked companies with deposits as ancillary receiverships as necessary for the protection of South Carolina policyholders.

PROCESS MEASURES

Six (6) receivership estates were open at the beginning of the 2001-02 fiscal year. The Department placed three (3) companies in Ancillary Receivership during the fiscal year; the Director suspended the licenses of eleven (11) insurers, and revoked the licenses of eight (8) insurers for being in a hazardous financial condition.

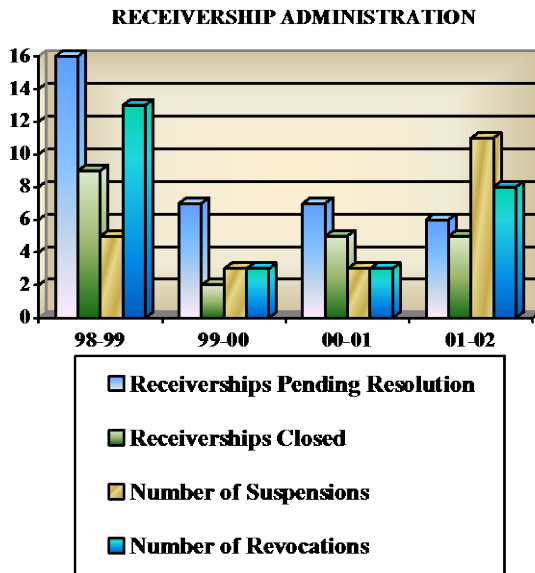
Five (5) of nine (9) estates were successfully closed during the 2001-02 fiscal year. The impact of the Office of General Counsel's efforts in this area is that more funds were made available to the Guaranty Association to minimize the number and amount of assessments that had to be made against member insurers.

The Department set up a multi-sweep account system to earn better interest from the deposits together than could be earned individually. The Department also deposited over fifty-seven thousand (\$57,000) dollars earned from past receiverships where all covered claims had been paid into the General Fund.

South Carolina differs from most other states in the manner in which it handles receiverships. Estates are disposed of in accordance with Chapter 27 of the South Carolina Insurance Code and the provisions of Chapter 9, which deal with statutory deposits. However, most states require special rather than statutory deposits. According to the NAIC, the requirement of "special deposits" versus "statutory deposits" makes the process a little more streamlined and less cumbersome. A statutory deposit can only be used to pay the claims of South Carolina policyholders. Special deposits are used to pay the claims of all policyholders. Forty-five (45) of the fifty (50) states require special deposits.

These states have also adopted the 1994 NAIC Model Act in this area.

TREND DATA



REPRESENT THE SOUTH CAROLINA DEPARTMENT OF INSURANCE IN STATE AND FEDERAL PROCEEDINGS

GOAL

The Office of General Counsel is responsible for minimizing the Department's exposure to liability through effective legal representation.

BUSINESS PROCESS

The staff provides effective representation to the South Carolina Department of Insurance in actions filed by, or against, the Department. Counsel handles the defense of all matters not covered by the Department's tort liability policy.

PROCESS MEASURES

The bulk of the litigation handled by attorneys within the Office of General

Counsel is before the Administrative Law Judge Division. During the past fiscal year, attorneys in the Office of General Counsel represented the Department in forty-seven (47) matters before the ALJD: one (1) civil court action; fourteen (14) rate matters; twenty-eight (28) disciplinary matters; two (2) matters to implement regulations; and two (2) miscellaneous matters. In addition, the Office of General Counsel received six (6) Administrative Disallowance of Subrogation by Insurer Petitions.

Additionally, during the past fiscal year, the Office of General Counsel lead or participated in the following special projects: 1) Department Study of the South Carolina Small Group Health Insurance Market; 2) Grant proposal to secure funding from the Health Resources Services Administration on "Expanding Health Insurance Coverage and Stabilizing Rates within the Small Group Market;" 3) Training sessions on South Carolina's privacy regulation and the privacy provisions of the Gramm-Leach-Bliley Act, as well as, other legislation affecting the business of insurance; 4) Examinations of rating and underwriting practices; 5) National committees involved in insurance regulation; and 6) Insurance regulatory consulting services and training to the insurance supervisory authorities of Egypt and Malaysia. These international consulting activities were sponsored or funded by the Commercial Law Development Program of the United States Department of Commerce and the National Association of Insurance Commissioners.

SPECIAL PROJECTS

Special projects and activities of the Department as directed by the Director and Senior Management include:

SINGLE MODEL PRODUCER LICENSING

The Gramm-Leach-Bliley Act requires a majority of states to achieve uniformity or reciprocity in its licensing of producers. If the majority of states do not accomplish this by November 12, 2002, an organization called NARAB will assume the responsibility for licensing nonresident agents and brokers. The Department introduced the Single Model Producer Licensing Law to achieve reciprocity and to avoid the creation of NARAB. This year legislation was passed creating the single model producer licensing law to take effect January 31, 2003.

FILE AND USE

As a result of Gramm-Leach-Bliley (GLBA), Congress is being petitioned to make further changes within the insurance industry. Many insurers have asked Congress to consider a national charter, so they may be regulated by the federal government- a single regulator. Additionally, insurers want a filing system similar to that enjoyed by the national banks (e.g., use and file). National banks are not required to file products for approval in advance. They may market the product and file notice of the new product within thirty days. The South Carolina Department of Insurance introduced legislation, which was enacted in 2001, which will increase the speed in which an insurance product can be

brought to market. This legislative initiative changed the process in which the Department approves products and eliminates administrative delays. Insurers may now file forms and use them if the Department does not disapprove the forms within thirty (30) days. The file and use provisions apply to forms only, not rates. These changes increase efficiency while preserving the Department's review function of all form filings.

SMALL GROUP HEALTH MARKET REPORT

The Department worked with members of the industry and the small business chamber to review the status of the small group health market. This preliminary report (Report) addresses South Carolina's small group health insurance market, and this State's efforts to reform that segment of the insurance marketplace. The principal reforms reviewed by this preliminary report are: 1) the Reform Initiatives of 1992; 2) the Reform Efforts of 1994; and 3) HIPAA Reform including, but not limited to, guaranteed issue, renewability and portability, and rating. This report also explores recommendations to improve this segment of the market.

This past April, the Department submitted a proposal to the US Health and Human Services Administration for a State Planning Grant. The proposal allowed for the expansion of the Department's efforts in reviewing the statutes of the small group health market. The US Health and Human Services Administration awarded a \$1,100,000.00 planning grant to the Department in July. The grant allows for the further study of the uninsured population so that state policy initiatives can be

formulated to reduce the number of uninsured by expanding access to health insurance coverage and to stabilize the insurance rates within the market so that those who are currently insured do not lose their insurance coverage. Since most obtain insurance through their employment, the project will focus on the small group health insurance market in South Carolina.

HELD IN TRUST

Since 1999 the South Carolina Department of Insurance, through a grant from the South Carolina Department of Public Safety, has offered an educational awareness program entitled *Held in Trust*. This program provides educational and instructional information regarding the need for and proper installation of child safety seats. This is the first program available in South Carolina that specifically targets prenatal classes in hospitals throughout South Carolina. *Held in Trust* was initially offered at hospitals in Greenville, Spartanburg, Charleston and Richland counties. Now it has expanded to target hospitals and patients in Lexington, Dorchester and Pickens counties. The program is offered at no cost to the hospital or the class participant. Additionally, the program provides free informational brochures, handouts, and newborn items, including one (1) approved child safety seat per class.

Since the class schedule began in 1999, *Held in Trust* has instructed over three thousand (3000) people through one hundred and eleven (111) classes in fourteen (14) hospitals throughout the target counties and over seven (7) safety seat check-up events sponsored by *Held in Trust* in South Carolina. At each class, a child safety seat is given away by random drawing along with

promotional items and educational brochures. The project coordinator also attends maternity and health fairs, and car seat safety check-up events to promote the class and instruct parents and caregivers as to how to properly install a safety seat. Also, the project coordinator explains to parents and caregivers the importance of properly installed child safety seats. Because South Carolina has the highest per mileage death rate in the nation, it is vital that all children are properly restrained while riding in a motor vehicle. The child passenger safety law in South Carolina has changed in the past fifteen (15) months and *Held in Trust* will continue throughout this next year to make sure that the awareness of child passenger safety continues.

HURRICANE AWARENESS EXPO

Due to budget constraints, the Department was unable to provide this outreach service.

LOSS MITIGATION GRANT PROGRAM

Recent legislation had a sunset date of June 30, 2002 regarding the availability of loss mitigation grant funds. The Department continues to oversee the outstanding grant projects awarded to local communities in their preparations, either through education or hands-on improvement projects, for making their community safer from the threat of natural disaster due to hurricane, flood, fire or earthquake.

HEALTH RELATED ISSUES

The Department is involved in a variety of health insurance issues. In particular, the

team that drafted the recently enacted Health Carrier External Review Model Act has been reconstituted to develop required notices and procedures to implement the Act.

The team continues to work out a non-legislative solution to prompt payment issues alleged by the hospitals and physicians. It is reviewing the interim rules related to nondiscrimination, and reviewing the final rules related to Privacy of Health Information.

The team also assisted in drafting legislation which allowed the S.C. Health Insurance Pool to expand coverage to disabled individuals under age sixty-five (65) and to ensure that the Pool remains an acceptable alternative mechanism under the Health Insurance Portability and Accountability Act of 1996 (HIPAA). The bill passed this year. Additionally, the team also worked on a portion of the Department's clean-up legislation, which pertained to the extension of liability by the prior carrier. This bill also passed this year.

The Department has formed a team that continues to review the issue of individual life insurance being sold via a group mechanism. We have also formed a team to review preemption issues related to the Department of Labor Claims Handling Regulation. Finally, the Department is closely monitoring developments with respect to health insurance at the federal level, including the Patients Bill of Rights.